Forest marketing with e-technologies

By Peter Read

Introduction

New technologies are fast changing the face of business globally and the commercial forestry sector is no exception. Bill Gates tells us that the world of commerce will see greater change in the next 10 years than it has done in the last 50. So-called e-technologies we are told - in particular the Internet, email and telecommunications - are rapidly transforming the way we conduct our businesses and how we live our lives. Email alone is positioned to become the single largest influence on human existence in the future. Recent years have seen a rash of 'dotcoms' launched, spurred by keen investors seeking high profits from new technologies. With the more recent failure of many we have seen a cooling of much of the earlier investment hype. Some technology-based businesses now face a less certain future and no longer enjoy past levels of investor interest. But what of our forest industry; how might e-technologies improve the way we do business? One area in which we may see unprecedented change is in the trading of commercial forests. An example is a forest brokerage service launched earlier this year.

Specialist forest marketing agency

Forestmarkets.com Limited specialises in marketing commercial forests. The company works exclusively on behalf of forest vendors as their agent and marketing partner for the term of the sale. It maintains a close association to the forest industry and engages forestry consultants and other professionals on behalf of clients to prepare forests for sale with a focus on authoritative, verifiable forest description information. This aims to reduce risk due to uncertainty allowed by prospective purchasers.

Using an internet web site, www.forestmarkets.com to facilitate the marketing process, the company's aim is to provide prospective purchasers anywhere in the world with all the information required to make an informed purchase decision from their desktop. The web site provides information on forest listings that is updated throughout the sale process as reporting and other information comes to hand. In some cases a forest map gives stand and topographical information supported by embedded photographs at various marked locations, which allow the user to view the forest from various perspectives. Another digital initiative is the company's E-letter, which provides a brief summary of the web site and which is direct-mailed periodically to a database of contacts globally. While the application of modern e-technologies has made these services feasible, the idea began some years ago. Targeted research was undertaken subsequently and proved to be vital in developing the original concept.

Some early background

An assessment of transaction histories of commercial forests to the mid 1990's suggested that - with the exception of larger state and corporate asset sales - marketing of commercial forests, particularly in their immature state, presented would-be sellers with a number of challenges. Vendors faced a number of problems including poor liquidity of their asset, no forest marketing specialists available to represent their interests, too few investors, wide pessimism by investors about forestry as an alternative to more traditional investments and often, major geographic separation between buyers and sellers. Further, expectations as to value differed vastly between buyers and sellers and the sales that did eventuate were finalised only after a substantial sale period. At this time (during the early 1990's) an attempt was made by The Forestry Exchange to establish an agency in the secondary market for forests. This was shelved by the mid 1990's.

It also became apparent that in marketing pruned forests, sellers were faced with what was an almost uniquely New Zealand problem associated with the need to adequately describe the pruned resource. Because trees are pruned to produce clearwood, pruned log value is mainly determined by internal features such as such as size of defect core and the incidence of random defects such as resin pockets. In many cases, particularly if good records are not available, pruned log quality can only be determined by sampling. With up to 70% of the value of a pruned stand represented by the pruned element there is strong motivation for both buyers and sellers to properly define the resource in terms of both quality and quantity. Unpruned stands present a relatively easier task in their assessment since their value is largely determined by externally visible and measurable characteristics.

Development research

Challenges faced by the industry in marketing the resource formed the basis for a marketing research project: 'Investigation of the secondary market for commercial forestry in New Zealand', undertaken by Peter Read at Massey University in 1997 and 1998. Findings included the identification of key perceptions of buyers and sellers, suggesting what information should be provided to support the sale process, who should provide this and how.

Peter Read is a director of Forestmarkets.com Limited
PH +64 6 359 4400
Email: pjr@forestmarkets.com
Future trends of increasing frequency of sales and fragmentation of forest ownership were also identified. Another key aspect of this research was to identify how forestry and e-technology tools might best be used to facilitate forest transactions in a global marketplace. This research provided the foundation of a business plan for a forest marketing agency. Further research has been undertaken in key offshore markets and this will continue to influence strategy of how best to reach and service prospective forest buyers globally.

**Tools for marketing forests**

The industry has been largely successful in developing forestry tools for forestry problems. We have available today numerous techniques for evaluating forests and predicting future outcomes in terms of quality, quantity and value from an individual tree level to the resource level. Tools such as Pruned Log Index (PLI), Pruned Stand Certification (PSC) used in conjunction with purpose-designed saving studies in mills or Cross Sectional Analysis (CSA) for in-forest sampling, are not new developments. However, they are rapidly finding wide acceptance throughout the forest industry in New Zealand and offshore. We have recently seen the development of Photo MARVL, which promises to substantially improve the utility of the well established MARVL tool. STANDPAK and a variety of other forest modelling software tools are also widely used throughout the industry.

**The future**

It is clear that new technologies present our forest industry, like most others, with substantial opportunities to improve the way we do business and New Zealand is well placed to lead the way in applying technologies now available. In facilitating commercial forest transactions, research and experience to date have shown clear benefits from combining forestry and digital technologies with researched, targeted marketing. Improvements in both the quality of information defining the resource and in how this is communicated allow us to bring buyers and sellers together more effectively than ever before. The flow-on effect of this will likely be improved liquidity of forests and ultimately this must inevitably result in stronger interest by non-traditional investors in commercial forestry.

**Infrastructure causes concern**

Concerns over whether the country’s infrastructure will match the forest industry’s future growth were highlighted at the NZ Forest Industries Conference in October. Entitled “Shaping the Future - With Government” the day-long meeting focused on many of the areas where the two protagonists’ interests often converge.

Deputy Prime Minister and Minister for Economic Development, Jim Anderton, laid down the challenge when he highlighted concerns over the lack of performance in certain areas.

Noting that the excess wood supplies predicted for the next decade would, in theory, provide significant expansion opportunities in non-traditional regions, Anderton said it was only “in theory” at this stage because “we are not ready for it”.

In the Central North Island, the infrastructure and support industries had developed over time to meet the growing demands associated with an increasing wood supply. But this development had not occurred in the new growth regions. In the East Coast and Northland the major increases in wood supply would be gradual - they would be dramatic and occur in less than five years.

“It is happening now. These regions are ill-prepared in terms of infrastructure, people and planning to cope with what is already upon them.”

Anderton gave examples from his experience of chairing the Tairawhiti Development Taskforce on the East Coast over the past six months. These included new sealed roads and even those that were being ill-equipped for existing volumes let alone predicted increases in wood supplies. Neither of the councils in the region had the financial capacity to make the investment required in roading. Central government fund was tied up in short-term processes, leading to uncertainty in regional planning strategies. Gisborne port was operating at full capacity. There were limited options for expansion. Access to the port brought heavy vehicles through the city centre. Both Hicks Bay and Tolaga Bay had potential to offer deep-water alternatives but even though such options were planned for in the early 1980s, they had yet to be realised.

The railway linking Gisborne to Napier was in poor repair since Cyclone Bola and its future was now uncertain. The electricity network was old and poorly maintained and therefore not configured to handle an upsurge in industry development.

Ministry of Economic Development and Ministry of Agriculture and Forestry officials were coordinating an effort to bring together government resources to address forestry and wood products development issues region-by-region. The government expected that in the New Year it would be able to start discussions with the industry and local government on the issues involved. The current thinking was that five main working parties would be established, looking at:

- International trade enhancement and investment promotion.
- Labour requirements.
- Infrastructure (including energy, transport - road and rail, research, planning, water, waste).
- Maori participation and involvement.
- And a steering group to provide overall coordination and leadership.

These were preliminary groupings only and Anderton said he wanted there to be a high degree of direct industry engagement.